

NEWS RELEASE



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NEWS RELEASE SUMMARY - November 17, 2008

San Diego, CA - Nathan Hochman, Assistant Attorney General for the Tax Division, U.S. Department of Justice, Karen P. Hewitt, United States Attorney for the Southern District of California, and Catherine D. Tucker, Acting Special Agent in Charge, IRS Criminal Investigation, Los Angeles Field Office, announced that today San Diego chiropractor Kathryn Hanes and her partner, Madonna Hanes, were sentenced in federal court in San Diego for their roles in committing various federal criminal tax offenses, including charges of conspiracy to defraud the United States and income tax evasion. In March 2008, a jury in federal court convicted the defendants.

U.S. District Court Judge Thomas Whelan sentenced Kathryn Hanes to serve 18 months in federal prison and a three-year term of supervised release and to pay \$80,000 in restitution to the United States Treasury and a \$7,500 fine. Madonna Hanes was sentenced to serve five months in federal prison, five months in home detention and a three-year term of supervised release and a \$3,000 fine.

According to the indictment and evidence introduced at trial, defendants Kathryn Hanes and Madonna Hanes conspired to defraud the United States from 1996 through 2000 by failing to file tax returns, mailing frivolous letters to the IRS claiming that (a) they were not U.S. citizens, (b) the IRS had no authority or jurisdiction to collect income tax from them, and (c) they earned no income and owed no income taxes. The evidence at trial showed that between 1996 and 2000, the Hanes earned hundreds of thousands of dollars from Kathryn Hanes' chiropractic business called "Biophysics Chiropractic."

The Government presented evidence that both defendants undertook numerous affirmative acts, including many "tax protestor" tactics, to commit tax evasion for the tax years 1996, 1997, 1998, 1999, and 2000. For example, in letters sent to the IRS, defendant Kathryn Hanes claimed that the IRS lacked authority to collect income taxes from her because she placed her income in a "pure trust" that did not have income tax reporting requirements. She also claimed that she was not a U.S. citizen and that she did not engage in business in the United States. Madonna Hanes sent similar correspondence to the IRS and spent the proceeds of the conspiracy on multiple trips to Hawaii, expensive automobiles, and other goods and services.

United States Attorney Karen P. Hewitt said, "Citizens must pay their federal taxes. Those who evade taxes – through frivolous arguments and fraudulent schemes – will pay the consequences, as both defendants in this case have."

"Today's sentencing of Kathryn and Madonna Hanes clearly shows that if you risk hiding income from the IRS through fraudulent trust schemes, you will go to prison," said Catherine D. Tucker, Acting Special Agent in Charge, IRS Criminal Investigation, Los Angeles Field Office. "IRS Criminal Investigation will aggressively investigate fraudulent trust scheme promoters and ensure that the public can maintain confidence in our tax system."

This case was investigated by Special Agents with the Internal Revenue Service, Criminal Investigation, and prosecuted by Assistant United States Attorneys John B. Owens and William P. Cole. For more information on the "non-citizen" strategy and other tax evasion schemes, visit the IRS website at www.irs.gov, and click on the link "Individuals," and then "Frivolous Tax Arguments."

DEFENDANTS

Case Number: 04cr0604W

Kathryn Jane Hanes

Madonna Alexandria Hanes

SUMMARY OF CHARGES

Conspiracy in violation of Title 18, United States Code, Section 371

Income Tax Evasion in violation of Title 26, United States Code, Section 7201

AGENCY

Internal Revenue Service, Criminal Investigation